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SUBJECT: EBRD SOFTENS APPROACH TO UZBEKS

Classified By: CLASSIFIED BY ECON OFF B. OLSEN FOR REASONS 1.4 (B, D).

¶1. (C) Summary: Ambassador met with the European Bank for Reconstruction and Development's (EBRD) Head of Mission, Fernand Pillonel, on October 30 to discuss the bank's situation in Tashkent. Pillonel said EBRD is taking a softer approach to Uzbekistan and will reconsider its engagement strategy in early summer. Some sticking points remain in the relationship, however. End summary.

¶2. (C) Pillonel said EBRD's 2007 Country Assessment reflects the EU's strategy of softer, kinder engagement with the GOU. The bank believes its harsh public criticism of Uzbek economic reforms and investment climate has been counterproductive, pushing the Uzbeks away. Plus, the EBRD has been predicting economic disaster for a few years, but the tightly-controlled Uzbek macro economy has stayed afloat (although the benefits have not reached the majority of the population).

¶3. (C) The World Bank is seeking to normalize its relations with Uzbekistan, Pillonel said, and likely will upgrade its assistance plan from an Interim Strategy to the normal Country Assistance Strategy. He believes the Uzbeks will use a normalized relationship with the World Bank to pressure the EBRD into normalizing as well. In early summer, the EBRD plans to reanalyze its position towards Uzbekistan, perhaps weakening the restrictions on new loans to the public sector. In 2007, EBRD signed 20 million in new loans, all in private sector for small and medium-sized businesses, mostly in agro business; in 2006 it signed just six million. Due to lack of Uzbek reforms in the agriculture sector and the use of child labor, EBRD is prevented from loaning to government-owned agro businesses.

¶4. (C) Because EBRD has not funded new public sector programs in a few years, the GOU has prevented the bank from meeting with public sector actors. (Note: This follows the disastrous 2003 EBRD meeting in which UK's Claire Short publically criticized Karimov in front of other Central Asian Leaders. End note.) Bank representatives have not been given meetings with their main interlocutor, Minister of Finance Azimov. Pillonel believes restrictions might ease after the elections, especially regarding microfinance, as the GOU, in his opinion, associates microfinance with NGOs and uprisings. One bright side, he said, is the GOU checked projects less often in 2007 and there were no reports of harassment, unlike in previous years.

¶5. (C) Pillonel mentioned problems EBRD is having with a 2001 project to rehabilitate 80 locomotives. He told the Ambassador the bank is close to canceling the project because

single bidders are not allowed under EBRD rules. Uzbek technical constraints forced out the U.S. and Japanese bidders, leaving only a Russian company. If the project is canceled, Uzbekistan will have lost three million USD in consultation fees and be charged a one million USD fee by EBRD. He believes the GOU is making this into a political issue and EBRD's relationship with the GOU will suffer.

NORLAND